



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
LARUE COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**March 24, 2000**

**EDWARD B. HATCHETT, JR.  
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## **EXECUTIVE SUMMARY**

### **LARUE COUNTY MERLE L. EDLIN, COUNTY SHERIFF SHERIFF'S SETTLEMENT – 1999 TAXES**

#### **Independent Auditors Report:**

There is one comment and recommendation because the Sheriff did not have a written security agreement with the financial institution.

#### **New Findings:**

The Sheriff did not have a written security agreement with the financial institution.

#### **Financial Statement:**

- There were no material amounts due taxing districts.
- The Sheriff was given credit for bank share commissions of \$2,877, per KRS 134.290, resulting in a refund due from the State. The Sheriff has received this refund.

#### **Notes to Financial Statement:**

- Deposits - As of December 31, 1999, the Sheriff had pledges of \$1,625,000; however, he did not have a written security agreement with the financial institution.
- The Sheriff earned \$6,492 in interest, but did not distribute the appropriate amount to the school district each month. However, the Sheriff distributed the appropriate amount to the school district after the tax year.

#### **Compliance and Internal Control Letter:**

There were no material noncompliances or reportable conditions.  
There were no reportable internal control weaknesses.



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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Tommy Turner, LaRue County Judge/Executive

Honorable Merle L. Edlin, LaRue County Sheriff

Members of the LaRue County Fiscal Court

Independent Auditor's Report

We have audited the LaRue County Sheriff's Settlement - 1999 Taxes as of March 24, 2000. This tax settlement is the responsibility of the LaRue County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted Government Auditing Standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the LaRue County Sheriff's taxes charged, credited, and paid as of March 24, 2000, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Have A Written Agreement To Protect Deposits

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
John P. McCarty, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Tommy Turner, LaRue County Judge/Executive  
Honorable Merle L. Edlin, LaRue County Sheriff  
Members of the LaRue County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated July 14, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 14, 2000



LARUE COUNTY  
MERLE L. EDLIN, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES

March 24, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 392,199	\$ 244,584	\$ 1,222,068	\$ 420,619
Tangible Personal Property	17,890	10,752	47,652	47,928
Intangible Personal Property				12,887
Fire Protection	1,287			
Franchise Corporation	52,727	32,099	143,181	
Additional Billings	49	28	147	50
Bank Franchise Corporation	39,460			
Increased Through Erroneous Assessments	35	21	109	38
Penalties	3,441	2,184	10,646	3,838
Adjusted to Sheriff's Receipt	(116)	(314)	(380)	(206)
Gross Chargeable to Sheriff	\$ 506,972	\$ 289,354	\$ 1,423,423	\$ 485,154
<u>Credits</u>				
Discounts	\$ 5,358	\$ 3,307	\$ 16,506	\$ 6,443
Exonerations	2,402	1,503	7,463	2,639
Delinquents:				
Real Estate	6,979	4,391	21,719	7,475
Tangible Personal Property	8	5	21	59
Uncollected Franchise Corporation	9	6	25	
Total Credits	\$ 14,756	\$ 9,212	\$ 45,734	\$ 16,616
Net Tax Yield	\$ 492,216	\$ 280,142	\$ 1,377,689	\$ 468,538
Less: Commissions *	21,207	11,872	55,108	20,200
Net Taxes Due	\$ 471,009	\$ 268,270	\$ 1,322,581	\$ 448,338
Taxes Paid	470,712	268,096	1,321,685	448,028
Credit For Commissions Per KRS 134.290				2,877
Refunds (Current and Prior Year)	266	160	830	294
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	\$ 31	\$ 14	\$ 66	\$ (2,861)

\* and \*\* See Page 4

LARUE COUNTY  
MERLE L. EDLIN, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES  
March 24, 2000  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,229,851
4% on	\$	1,377,689
1% on	\$	1,045

\*\* Special Taxing Districts:

Library District	\$	6
Health District		3
Extension District		<u>5</u>
Due Districts	\$	<u><u>14</u></u>

The accompanying notes are an integral part of the financial statement.

LARUE COUNTY  
NOTES TO FINANCIAL STATEMENT

March 24, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

LARUE COUNTY  
NOTES TO FINANCIAL STATEMENT  
March 24, 2000  
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1999 through March 24, 2000.

Note 4. Interest Income

The LaRue County Sheriff earned \$6,492 as interest income on 1999 taxes. The Sheriff did not distribute the appropriate amount to the school district as required by statute. However, the Sheriff distributed the appropriate amount to the school district after the tax year, and the remainder will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION



LARUE COUNTY  
MERLE L. EDLIN, SHERIFF  
COMMENT AND RECOMMENDATION

March 24, 2000

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 9, 1999, the Sheriff had bank deposits of \$1,509,341; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,625,000. Even though the Sheriff obtained sufficient collateral of \$1,625,000, the pledge agreement was not approved by the board of directors of the depository institution or its loan committee nor evidenced by a written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response:*

*None.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Tommy Turner, LaRue County Judge/Executive  
Honorable Merle L. Edlin, LaRue County Sheriff  
Members of the LaRue County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the LaRue County Sheriff's Settlement - 1999 Taxes as of March 24, 2000, and have issued our report thereon dated July 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the LaRue County Sheriff's Settlement - 1999 Taxes as of March 24, 2000 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LaRue County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

Honorable Tommy Turner, LaRue County Judge/Executive  
Honorable Merle L. Edlin, LaRue County Sheriff  
Members of the LaRue County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 14, 2000

